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ABSTRACT

This article provides insight into the California state budget process and gives an overview of California's growing deficit. The author examines the decline in personal income gained from stock options and capital gains as a means of illustrating the economic factors that resulted in a $28 billion deficit. Next, the author turns his attention to the Governor's 2003-04 budget proposal, which would reduce funding by $528 million from the level, provided in the budget enacted the previous September. This is represents a 10.4% reduction. In addition, the Governor proposes cutting $821 million in State General Fund Support. This would be partially offset by student fee revenue ($149 million) and local property tax ($144 million), resulting in a net $528 million cut. From a policy standpoint, the budget's most significant proposal is an 8.5% "downsizing" of the community colleges. The Governor's budget acknowledges that 118% (from $11 to $24) fee increase and reduced course sections will invariably reduce enrollment. The remainder of the article consists of the author's assessment of how the Governor's proposed budget cuts will impact California's community colleges and a discussion of Proposition 98, a constitutional guarantee of a minimum level of funding for K-12 and community colleges. (RC)

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Community Colleges and the State Budget: the Nuts and the Bolts

Scott Lay, J.D.

Synopsis

Scott Lay is becoming a well-known name as community college leaders scurry around to determine the extent of budget cuts proposed for this upcoming year. This article provides insight into the state budget process and gives an overview of how the deficit got so large.

Article

Thi: gs certainly have changed in California. Until recently, the arcane process and details of the state budget rarely drew public attention, and rather drew individuals who were less inclined to battle the Capitol's more publicly watched battles. It was this obscurity, and California's incredible prosperity that appeared to be a perpetual spending spree, that I sought after graduating law school—the analytical role that would rarely draw attention and would allow me to garner expertise in a limited area. Little did I know…most legislative issues would fall to second fiddle behind the budget debate that faces us this year.

The State's Fiscal Mess

The question I most frequently get is "Is the deficit real?" I truly wish that it wasn't, that it was some political fabrication developed by a consultant to outmaneuver the other side. Unfortunately, the problem is real; there are no easy ways out of it; and, incredible pain will be felt by thousands of Californians as a result.

While it's impossible to look at only one factor to completely understand the gravity of the state's fiscal situation, it is instructive nevertheless. For that, I turn to the personal income gained from stock options and capital gains. In 1994, the total personal income attained statewide from these two sources was $25 billion. Through the incredible amassment of wealth associated with the technology (and broader stock market) boom, this number surged to $200 billion in 2000.

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Because this income is mostly earned beyond the relatively low trigger of the top income tax bracket, most of the income is taxed at the 9.3% tax rate. Thus, around $18 billion in taxes were collected from this source alone in 2000. One year later, the total income dropped to $90 billion, collecting taxes of around $8 billion. Learning this, it's not difficult to understand how California amassed a $28 billion deficit, when one tax source alone dropped $10 billion in one year. The decline continued in the current year, when the Department of Finance expects a total of $5.6 billion in tax revenues on stock options and capital gains.

There is a lot of criticism of state leaders, as Monday morning quarterbacks argue that they should have used the state's relatively short-lived "super prosperity" to address one time expenditures such as roads and other infrastructure needs. However, nobody knew how quickly—and how deeply—the market would decline…just ask those same quarterbacks about their stock portfolios. In fact, the state is not too different than thousands of people who rode the dot-com bubble and are not having difficulty living within their newly constrained means.

The deficit is real. Deep cuts will be made, and nearly every program will be affected.

Although the Governor proposed a largely one-year solution in January, most Capitol observers believe that its tax package is two large and assumptions to optimistic (including assuming that Indian tribes will hand over $1.5 billion in gaming revenue). The state will thus likely roll over a portion of the deficit, either formally (through debt instruments) or informally (by approving a package clearly out of balance).

The Midyear Cuts

Before looking forward to the supreme battle that we face as community college advocates, we should revel in the relative victory that we gained by working together. In December, Governor Davis proposed $218 million in midyear cuts, primarily through a 3.66% across-the-board cut to all community college programs. In his January proposed budget, he increased several of the categorical program cuts to 10.8%, increasing the total program cuts to $288 million.

While the Governor's goal was to ensure that Proposition 98 funding was kept to its constitutional minimum, the cuts were wildly disproportionate to UC and CSU, which were facing 1.5% and 1.7% cuts, respectively. In contrast, the Governor's proposal would have cut nearly 6% from community colleges.

In the end, the cuts were limited to $161 million, including $90 million in categorical program cuts (mostly equipment and maintenance), and $71 million in general apportionment cuts resulting from a property tax and student fee revenue shortfall. In the end, the cuts to community colleges tallied to 3.3% of state-determined funds, far better than the 6% proposed by the Governor, even if still disproportionate.

The 2003-04 State Budget: the Governor's Proposal

Community college advocates were shocked upon opening the Governor's budget. In most years, we are leaked the major elements in the budget, but this year's budget was treated as a top secret document. Expecting deep cuts, advocates were nonetheless shocked at the depth and immediately cognizable ramifications to the system.

The Governor's proposal for community colleges would reduce funding by $528 million from the level provided in the budget enacted last September. This is a 10.4% reduction, and would provide an overall funding level of $4,388 per-full time equivalent student. Funding per-FTES peaked at $4,576 in 2001-02. The cuts in support from the State General Fund are startling, as the Governor proposes cutting $821 million in General Fund support. This is partially offset by student fee revenue ($149 million) and local property tax ($144 million), resulting in the net $528 million cut.

From a policy standpoint, the budget's most significant proposal is a 8.5% "downsizing" of the community colleges. The Governor's budget acknowledges that the 118% (from $11 to $24) fee increase and reduced course sections will invariably reduce enrollment. The Governor seeks to ensure that the enrollment is lost, by taking funding away for 96,000 full-time equivalent students, foretelling their loss.

While community colleges have been told to reprioritize their enrollment, this appears to be the first time in history that a Governor has proposed affirmatively downsizing the community colleges. Adding the considerations that we are in the middle of Tidal Wave II, UC and CSU continue to receive funded enrollment growth, and that Californians tend to seek community college services during economic downturns like that gripping the state, the proposal is quite troubling.

The community college system currently serves 40,000 more full-time equivalent students than for whom we receive funding. As these students are nearly certain to go along with the downsizing, 136,000 total FTES could reasonably be estimated to be shed by the Governor's proposal. The Governor's budget provides extra growth funds to UC and CSU to cover their unfunded students.

In a seeming inconsistency, the Governor proposes enrollment growth funding of 3%, or enough funding for 31,000 new full-time students. Operationally, every district's base would be shrunk by 8.5%, but they could then earn back up to 3%, for a net decline of about 65,000 funded full-time students. During this declining enrollment period, the regulations that temporarily protect districts during enrollment decline would be suspended.

The fee increase proposal is particularly troubling to me. As a former student leader, I often quarreled with my peers about the need to pressure the Legislature into agreeing to an indexed fee policy. I truly believe that a California family should be able to sit around the kitchen table and make a reasonable estimate as to the costs of sending their child to college. Student leaders, however, have rejected this, and wildly jumped on the bandwagon to reduce fees in 1997 and 1998. Thus,

in the time of greatest prosperity in the history of the world, we made college more affordable. Now, after Americans have lost trillions in the stock market and thousands of jobs have been shed, we're going to hike the cost of college.

Is a moderate fee increase appropriate? Perhaps. However, we shouldn't let policymakers off easy, allowing them to treat the price of college like a commodity that drops before elections and during good times and increases during tough economic times.

The Governor's budget also slashes categorical programs, although quite inconsistently. Essentially, the Governor proposes two levels of cut—10.8% and 45%. The smaller cuts are carryover cuts from his proposed current year cuts. The deeper cut level is selectively applied to several programs, with the bulk of the cuts targeting Extended Opportunities Programs and Services (EOPS), Disabled Students Programs and Services (DSPS), Partnership for Excellence, and Economic Development.

These cuts are particularly difficult to swallow. While many feel that the time of the Partnership for Excellence may have sunsetted, the fact is that districts were encouraged to use these funds to hire full-time faculty under the promise that the funds would be ongoing (and would be inflated to accommodate growth and inflation).

I don't need to explain the absurdity of the cuts to EOPS and DSPS. In response to the outrage over these proposed cuts (totaling $80 million between the two programs), the Governor's spokespeople routinely justify it as part of the Governor's goal of keeping cuts away from the classroom. While I question whether that was truly the Governor's goal (pointing to the downsizing proposal), a simple and cogent response is available: it doesn't do any good to have funding in the classroom awaiting students who can't get there because they are too poor or disabled. Services will certainly be reduced this year, but should the deepest service reductions be in the programs most critical to the most vulnerable students?

Outlook

Lawmakers and other policy leaders clearly understand that community colleges are proposed to share a disproportionate burden of this year's budget cuts. Through thousands of letters, phone calls, and personal visits, along with the wildly successful March 17 rally at the Capitol (which drew over 10,000), lawmakers have been forced to confront this issue.

Unfortunately, however, to rectify the disproportionality of the cuts, lawmakers will have to take funds from some other program, or in the worse scenario, cut everything else to the same extent community colleges are proposed to be cut. In the end, it will likely be a blend of the two.

As mentioned above, the Governor's comprehensive solution to the budget is likely dead. The massive realignment proposal to shift selected health and human services programs to counties may be far too complicated to complete this year,

and the constitutionality of earmarking the $8.2 billion in new taxes needed to fund the realignment without contributing more to Proposition 98 has been raised. In the end, most budget watchers believe that there will be some relatively limited tax increases (i.e. cigarette tax, tax on Internet sales), deeper cuts than proposed by the Governor, and a rollover of a portion of the debt to next year.

Politically, there is a great deal of pressure to moderate the cuts to EOPS and DSPS, and I expect the Legislature to do so. However, the financial viability of many of our institutions will be tested if the Legislature doesn't reverse the Governor's downsizing proposal, which cuts $350 million from the system. For this, we need to continue the outstanding advocacy that started in January and extend it through June, July, August…whenever the work on this year's budget is finally complete.

Proposition 98

Because its easy to become overwhelmed with the details of the current year budget, we must not let the opportunity pass to tackle broader and longer term problems facing our financing. Thus, I need to spend a few minutes talking about Proposition 98.

Undoubtedly, you have heard of—and perhaps voted for—Proposition 98, the constitutional guarantee of a minimum level of funding for K-12 and community colleges. Passed in the November 1988 election, the guarantee sets aside a specific amount of funding in each year's budget for K-12 and community colleges, although does not set specific funding priorities itself.

When the Legislature approved implementing legislation, it accepted an agreement that the easiest method of arbitrating what would certainly be ongoing conflict between K-12 and community colleges. The result was Education Code 43201.1, widely known as the "Proposition 98 split." This statute, if in effect, would provide community colleges with 10.93% of Proposition 98 funds, or the same amount provided in the 1989-90 fiscal year. However, the Legislature has elected to waive this provision each year, providing community colleges with a dwindling share of the pot. The current year budget provides approximately 10.3%, and the Governor's 2003-04 budget would provide 9.2%.

Community college advocates consistently have sought restoration of the community college funding level to the agreed-upon level. However, any political novice can appreciate the difficulties of the zero sum game of seeking more funds in a competitive pot with K-12 schools. Further, with California's incredible economic prosperity of the late 1990s through 2001, receiving a smaller comparative share of a booming guarantee was less troubling.

The outlook for Proposition 98, however, is not as bright as it was through the 1990s. To understand why, I must delve briefly into the factors that drive the guarantee. Essentially, the guarantee is based on the previous year's spending, multiplied by an inflation factor, and by the increase in K-12 enrollment. Therefore, in the current fiscal year, the operating formula is last year's spending, plus the change in California per capita personal income, plus the change in K-12

enrollment. It's the last factor, K-12 enrollment growth, which will challenge us over the next ten years. K-12 enrollment, which grew by 1.5-2% through much of the last ten years, will actually be declining by the latter half of this decade. Thus, the negative number could offset the other inflationary factor, providing a flat Proposition 98 guarantee.

While K-12 enrollment may be flat, or even declining, community college enrollment is expected to grow through the end of the decade, with even the Department of Finance's conservative numbers ranging from 1.2% to 2.2%. Thus, while the Proposition 98 will not continue to increase, community college needs will increase, even without such "aggressive" concepts such as funding California's community colleges within $1,000 of the national average.

Community college leaders will therefore likely hear proposals this year to change the inflationary factors of Proposition 98. This may be tackled through either statutory change or a constitutional amendment that appears on the ballot. While advocates from both K-12 and community colleges recognize the problem, there has been little discussion as to how to overcome it. This falling ceiling must be dealt with, and this year provides a fertile opportunity to make the structural changes necessary to get California back on the right track.

For more information:

Community College Budget and Statistical Database

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As Director of State Budget Issues, Scott Lay leads the fiscal policy development and budget lobbying efforts for the Community College League of California, which is the nonprofit association representing California's 72 community college districts. He joined the League as an intern while a student at UC Davis in 1995 after serving as Legislative Chair of the California Student Association of Community Colleges.

At UC Davis's Martin Luther King Hall School of Law, he served as president of the Law Students Association, and worked as a research assistant in constitutional law and international economic and legal systems development. He graduated from UC Davis Law with a certificate in public interest law and passed the California bar exam in 2000.

Scott has served as Vice Chair of the Yolo Health Council, student member of the California Student Aid Commission, and served on the Board of Directors of EdFund, the loan guarantee agency of the California Student Aid Commission. He is currently the chair of the Yolo county Democratic Party.

Scott attended, and continues to be one physical education course short of graduating from, Orange Coast College in Costa Mesa. While at the University of California at Davis, he earned a Bachelor of Arts Degree in Political Science, Public Service in 1997. In 2002 he was awarded Juris Doctor from the University of California, Davis School of Law.

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